



IRA A. JACKSON
COMMISSIONER

The Commonwealth of Massachusetts
Department of Revenue
Leverett Saltonstall Building
100 Cambridge Street, Boston 02204

August 15, 1985

You state that at the time of your retirement you rolled over funds from a tax-sheltered annuity into an Individual Retirement Account ("IRA"). The IRA fund invested in 20 units of ("Fund") sponsored by

In June, 1984, the Fund sold certain bonds in its portfolio which you state resulted in a \$3,000 loss to your account. You inquire about the Massachusetts income tax treatment of your IRA fund, specifically whether you may deduct the \$3,000 loss in computing your 1984 Massachusetts individual income tax.

Massachusetts gross income is federal gross income with certain modifications not here relevant. G.L. c. 62, §2(a); Letter Ruling 83-36. For the purpose of determining Massachusetts gross income, federal gross income is determined according to the Internal Revenue Code ("Code") as amended on February 1, 1983 and in effect for the taxable year. G.L. c. 62, §§1(c), 2(a).

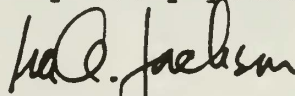
Under Code § 408(e)(1) an IRA fund is exempt from taxation. This means that for federal income tax purposes an individual taxpayer does not take into account either the income earned or the losses sustained by an IRA fund. For state income tax purposes, similarly, an individual does not take into account either income or losses on an IRA. Cf., G.L. c. 62, § 2(a). The \$3,000 loss sustained by your IRA fund, then, has no effect on the calculation of your 1984 federal or Massachusetts taxable income.

A general discussion of IRA's under Massachusetts and federal tax law follows. For federal income tax purposes a taxpayer may deduct contributions to an IRA (Code § 219;

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Letter Ruling 83-36), but all payments received from an IRA fund are subject to tax (Code § 408(d)(1); Letter Ruling 83-36). For Massachusetts income tax purposes, a taxpayer may not deduct contributions to an IRA (G.L. c. 62, § 2(d)(9); Letter Ruling 83-36); but payments received from an IRA fund are not subject to Massachusetts tax until the aggregate amount received is equal to the aggregate of all amounts previously taxed by Massachusetts. G.L. c. 62, § 2(a)(2)(F); Letter Ruling 83-36. The remainder of the payments received from an IRA fund is subject to the Massachusetts income tax. G.L. c. 62, § 2(a); Letter Ruling 84-109; cf., G.L. c. 62, § 2(a)(2)(F).

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. J. Jackson", written in a cursive style.

Commissioner of Revenue

IAJ:HW:loc

LR 85-62